

Message Text

UNCLASSIFIED

PAGE 01 OTTAWA 10550 01 OF 04 211950Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 DODE-00 PA-02 PRS-01 DOE-12 /108 W
-----118181 212024Z /45

P 211927Z DEC 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 5752
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS CANADA POUCH

UNCLAS SECTION 01 OF 04 OTTAWA 10550

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

1. SUMMARY. LATEST INDICATORS SHOW CONTINUED STRENGTH IN CONSUMPTION. PRODUCTION AND PROFIT TRENDS REMAIN WEAK AND IMPLY THAT OUTLOOK FOR PRIVATE INVESTMENT SPENDING REMAINS BLEAK. LABOR MARKET IS STILL SOFT. MOST OBSERVERS CONTINUE TO SEE DECELERATION OF INFLATION RATE DURING 1978, BUT BECAUSE OF FASTER THAN EXPECTED PRICE INCREASES IN RECENT MONTHS, COULD WELL RAISE THEIR FORECASTS FOR YEAR OVER YEAR INFLATION RATE NEXT YEAR. SAME HOLDS TRUE FOR UNEMPLOYMENT RATE. CAPITAL MARKETS WERE NOT PARTICULARLY ACTIVE LAST WEEK. SHORT TERM RATES WERE INFLUENCED BY EXCHANGE RATE DEVELOPMENTS AND WERE DOWN FROM PREVIOUS WEEK. CANADIAN DOLLAR GAINED SLIGHTLY AGAINST U.S. DOLLAR.
END SUMMARY.

2. DOMESTIC DEVELOPMENTS. PATTERN OF GROWTH THUS FAR IN FOURTH QUARTER SIMILAR TO CONSUMPTION LED EXPANSION OF THIRD
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OTTAWA 10550 01 OF 04 211950Z

QUARTER. SEASONALLY ADJUSTED RETAIL SALES TOTALLED CDOLS 5.3 BILLION IN OCTOBER, A RISE OF 3.1 PERCENT FROM SEPTEMBER (REVISED) AND OF 9.6 PERCENT FROM SEPTEMBER 1976. HIGHER SALES OF AUTOMOTIVE PARTS AND ACCESSORIES FIGURED IMPORTANTLY IN OVERALL INCREASE IN SALES. GROWTH OF CONSUMER CREDIT OUTSTANDING ALSO CONTINUES STRONG (ALBEIT DECELERATING) AND STOOD AT NEARLY CDOLS 24 BILLION IN

OCTOBER, UP ABOUT 1 PERCENT FROM SEPTEMBER. TWELVE MONTH INCREASE IN OUTSTANDING CONSUMER CREDIT WAS 11.7 PERCENT IN OCTOBER, COMPARED WITH A TWELVE MONTH RISE OF 12.6 PERCENT IN SEPTEMBER AND AVERAGE RISE OF 14.9 PERCENT FOR FIRST NINE MONTHS OF THIS YEAR. CONTINUED STRENGTH IN RETAIL SALES COMBINED WITH DECELERATION OF GROWTH OF CONSUMER CREDIT AND SLOW GROWTH OF REAL DISPOSABLE INCOMES MAY INDICATE THAT THIRD QUARTER FALL IN HOUSEHOLD SAVINGS RATIO MAY HAVE CONTINUED INTO FOURTH QUARTER.

3. ROYAL BANK OF CANADA'S INDEX OF LEADING INDICATORS ROSE 1.2 PERCENT IN THIRD QUARTER TO REACH ITS HIGHEST LEVEL IN LAST FOUR QUARTERS. RISE IN INDEX PARTLY ATTRIBUTABLE TO INCREASE IN VALUE OF PRE-TAX CORPORATE PROFITS AND IN RATIO OF PRICES (PARTICULARLY EXPORT PRICES) TO UNIT LABOR COSTS - I.E. TO A RISE IN PROFIT MARGINS.

4. WHILE ROYAL BANK'S LEADING INDICATOR WAS FAVORABLY INFLUENCED BY THIRD QUARTER RISE IN PRE-TAX PROFITS, RECENT SURVEY OF CORPORATE PROFITABILITY SHOWS THAT PROFIT PICTURE VARIES CONSIDERABLY ACROSS SECTORS AND IS GENERALLY RATHER WEAK, ESPECIALLY IN MANUFACTURING. SURVEY PUBLISHED BY TORONTO GLOBE AND MAIL COVERS 401 FINANCIAL AND NON-FINANCIAL CORPORATIONS AND SHOWS 15.2 PERCENT AVERAGE INCREASE IN PROFITS IN THIRD QUARTER THIS YEAR OVER THIRD QUARTER OF 1976. RISE IN PROFITS WAS NOT PARTICULARLY STRONG FOR UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 10550 01 OF 04 211950Z

"RECOVERY" PERIOD. MOREOVER, AGGREGATE RISE WAS STRONGLY INFLUENCED BY 69 PERCENT INCREASE IN PROFITS IN PAPER AND FOREST PRODUCTS INDUSTRY. SHARP INCREASE IN THIS SECTOR PRESUMABLY REFLECTS STRONG U.S. DEMAND ESPECIALLY HOUSING AND DEPRECIATION OF CANADIAN DOLLAR. IN CONTRAST, FIFTY GENERAL MANUFACTURING COMPANIES SURVEYED SHOWED 38.7 PERCENT DECLINE IN PROFITS. GENERAL MANUFACTURING GROUP HAS SHOWN YEAR OVER YEAR DECLINE OR ONLY SMALL RISE IN PROFITS SINCE SECOND QUARTER OF 1976. INDUSTRIAL MINING GROUP SHOWED EFFECTS OF SAGGING MARKET FOR NICKEL AND OTHER METALS WITH PROFITS ATTAINING ONLY CDOLS 63.9 MILLION IN THIRD QUARTER, DOWN FROM CDOLS 116 MILLION A YEAR AGO.

5. SLUGGISH TREND IN CORPORATE PROFITS ALSO MANIFESTED IN BANKRUPTCY FIGURES PUBLISHED BY DUNN AND BRADSTREET OF CANADA. TOTAL BANKRUPTCIES IN JULY THIS YEAR WAS 324, REPRESENTING COMPANIES WITH TOTAL LIABILITIES OF CDOLS 47 MILLION. IN JULY 1976, THESE FIGURES WERE 235 AND CDOLS 48.4 MILLION RESPECTIVELY. FOR FIRST SEVEN MONTHS OF THIS YEAR, THERE WERE 2,292 BUSINESS FAILURES, A RISE OF 32 PERCENT OVER SAME PERIOD LAST YEAR. HOWEVER, TOTAL LIABILITIES OF FAILING COMPANIES DECLINED INDICATING IMPACT OF POOR

PROFITABILITY AND SLOW GROWTH IS FELT RELATIVELY MORE STRONGLY BY MEDIUM AND SMALL FIRMS.

6. DESPITE BOUYANCY OF CONSUMER DEMAND, INDUSTRIAL PRODUCTION SHOWS LITTLE SIGN OF RENEWED LIFE. SEASONALLY ADJUSTED INDEX OF INDUSTRIAL PRODUCTION WAS 124.5 IN OCTOBER, UNCHANGED FROM SEPTEMBER LEVEL AND UP 3.5 PERCENT FROM OCTOBER, 1976. INDEX HAS FLUCTUATED CONSIDERABLY DURING YEAR REACHING A HIGH OF 125.3 AND A LOW OF 123.7 AND NOW SHOWS NO CHANGE FROM LEVEL ATTAINED IN JANUARY, 1977. MANUFACTURING OUTPUT WAS UP SLIGHTLY (0.2 PERCENT) IN OCTOBER AND UTILI-

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 OTTAWA 10550 02 OF 04 211959Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 DODE-00 PA-02 PRS-01 DOE-12 /108 W
-----118298 212025Z /45

P 211927Z DEC 77

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 5753

INFO AMCONSUL MONTREAL

ALL OTHER CONGENS CANADA POUCH

UNCLAS SECTION 02 OF 04 OTTAWA 10550

TIES REGISTERED STRONG RISE OF 1.2 PERCENT. MINING ACTIVITY HOWEVER, DECLINED BY 1.8 PERCENT; ELECTRICAL PRODUCTS INDUSTRIES BY 2.9 PERCENT AND PETROLEUM AND COAL PRODUCTION BY 2.1 PERCENT.

7. SHORT RUN OUTLOOK FOR PRODUCTION APPEARS MIXED. STATCAN RELEASE SHOWS RISE IN MANUFACTURERS' NEW ORDERS, SHIPMENTS AND UNFILLED ORDERS BETWEEN SEPTEMBER AND OCTOBER. SEASONALLY ADJUSTED NEW ORDERS WERE CDOLS 9.64 BILLION IN OCTOBER, UP 2.2 PERCENT FROM SEPTEMBER. SHIPMENTS AND UNFILLED ORDERS TOTALLED CDOLS 9.51 BILLION AND CDOLS 10.64 BILLION IN OCTOBER; PERCENTAGE INCREASES FROM SEPTEMBER WERE 1.5 PERCENT AND 1.2 PERCENT RESPECTIVELY.

8. IN CONTRAST, SURVEY BY PURCHASING MANUFACTURING ASSOCIATION OF CANADA INDICATES THAT ACTIVITY IN MANUFACTURING AND PROCESSING INDUSTRIES WAS LITTLE CHANGED BETWEEN OCTO-

BER AND NOVEMBER. NEW ORDERS BOOKED WERE LOWER FOR 29 PERCENT OF RESPONDENTS AND HIGHER FOR 27 PERCENT. LOWER EMPLOYMENT WAS REPORTED BY 27 PERCENT OF RESPONDENTS; HIGHER EMPLOYMENT BY ONLY 13 PERCENT.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OTTAWA 10550 02 OF 04 211959Z

9. DECEMBER 18 FINANCIAL POST PRESENTS DETAILED ANALYSIS OF CAUSES UNDERLYING MALAISE OF CANADIAN MANUFACTURING SECTOR. ANALYSIS OFFERS LITTLE WHICH IS NEW, POINTING TO HIGH LEVEL OF UNIT LABOR COSTS IN CANADA RELATIVE TO U.S. STUDY ALSO CITES HIGH DEGREE OF FOREIGN OWNERSHIP AS PARTIAL CAUSE FOR FLAGGING R AND D EXPENDITURE AND SMALL SCALE OF PLANTS AND HENCE OF LOW PRODUCTIVITY LEVELS RELATIVE TO U.S. ARTICLE REITERATES NEED TO SLOW RISE IN NOMINAL WAGES, BUT ALSO ARGUES THAT PRODUCTIVITY COULD BE IMPROVED THROUGH JOINT VENTURES WITH U.S. COMPANIES AND BY EXTENSION OF AUTO PACT-TYPE AGREEMENTS INTO OTHER MANUFACTURING ACTIVITIES.

10. PRICES. IN COMMENTING ON ACCELERATION OF INFLATION IN NOVEMBER, AIB EXPRESSED VIEW THAT FOOD AND OTHER PRICES WOULD SHORTLY BEGIN TO MODERATE AND THAT DECELERATION SHOULD CONTINUE INTO FIRST QUARTER OF 1978. AIB ALSO MADE POINT THAT UNDERLYING INFLATION RATE IS SIGNIFICANTLY LOWER THAN MEASURED RATE AND THAT ITS RATE OF INCREASE HAS BEEN DECELERATING FOR SOME TIME. MOST OBSERVERS WOULD AGREE WITH AIB JUDGMENT THAT INFLATION RATE WILL DECLINE OVER NEXT FEW MONTHS. HOWEVER, BECAUSE PRICES HAVE RISEN FASTER THAN EXPECTED IN LATTER PORTION OF THIS YEAR, FORECASTERS WILL PROBABLY REVISE UPWARD THEIR FORECASTS FOR YEAR OVER YEAR RISE IN CPI NEXT YEAR. IN RECENT MARKET LETTER, MCLEOD, YOUNG AND WEIR NOTES THAT IF INFLATION RATE IN DECEMBER CONTINUES AT NOVEMBER RATE (TWELVE MONTH RISE OF 9.1 PERCENT) CPI IN DECEMBER WILL STAND 3.5 PERCENT ABOVE 1977 AVERAGE. THUS, EVEN IF PRICES DID NOT INCREASE IN 1978, CPI IN 1978 WOULD BE 3.5 PERCENT ABOVE 1977 AVERAGE. CONFERENCE BOARD NOW FORECASTS 7.4 PERCENT INCREASE IN CPI NEXT YEAR COMPARED WITH 6.7 PERCENT FORECAST IN SEPTEMBER; UPWARD REVISION IS DUE TO RECENT PRICE ACCELERATION.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 10550 02 OF 04 211959Z

11. PROSPECTS FOR EXPECTED MODERATION OF FOOD PRICES IMPROVED IN OCTOBER. INDEX OF INDUSTRY SELLING PRICES ROSE 1 PERCENT IN MONTH AND SHOWED 12 MONTH INCREASE OF 7.7 PERCENT. THE OCTOBER ADVANCE WAS THE SMALLEST SINCE JUNE AND MODERA-

TION OF INCREASE WAS IMPORTANTLY INFLUENCED BY 0.5 PERCENT DROP IN FOOD AND BEVERAGE PRICES. PRICE RISES GREATER THAN AVERAGE RISE IN INDEX WERE IN FURNITURE, PAPER PRODUCTS, LEATHER AND MACHINERY.

12. POST CONTROL REGIME. PRESS REPORTS INDICATE THAT GOC IS NEARLY READY TO SUBMIT LEGISLATION ON PROPOSED FORM OF WAGE/PRICE MONITORING SYSTEM TO SUCCEED PRESENT AIB WHEN DECONTROL BEGINS APRIL 14, 1978. ACCORDING TO REPORTS, GOC WILL PROPOSE NEW AGENCY WHICH WILL NOT HAVE ROLLBACK POWER, BUT WHICH WILL HAVE AUTHORITY TO SUMMON WITNESSES AND TO COMPEL PRODUCTION OF DOCUMENTS AND OTHER INFORMATION. DEPT. OF FINANCE OFFICIAL HAS CONFIRMED TO EMBOFF THAT REPORT IS ESSENTIALLY ACCURATE, AND THAT GOC HOPES TO SUBMIT LGISLATION TO PARLIAMENT SHORTLY AFTER CHRISTMAS BREAK. GOC HOPE IS THAT "MINI AIB" WILL HAVE RESTRAINING INFLUENCE ON WAGE/PRICE SETTING BEHAVIOR THROUGH ITS CAPABILITY TO SECURE AND RENDER PUBLIC INFORMATION EMBARRASSING TO "OFF-ENDERS". GOC HAS ALSO INTRODUCED IN PARLIAMENT LEGISLATION TO PRODUCE MORE ORDERLY WITHDRAWAL FROM CONTROLS. NEW LEGISLATION WOULD DISALLOW SO-CALLED "AIB CLAUSES" IN SOME CONTRACTS AGREED DURING CONTROL PERIOD WHICH PROVIDED FOR RENEGOTIATION OF CONTRACTS AS SOON AS CONTROLS WERE LIFTED.

13. EMPLOYMENT. LABOR MARKET CONTINUES SOFT. SEASONALLY ADJUSTED EMPLOYMENT INDEX WAS VIRTUALLY STAGNANT BETWEEN SEPTEMBER AND OCTOBER AS IT FELL FROM 145.0 TO 144.8. AVERAGE WEEKLY HOURS DECLINED FROM 41 HOURS TO 40.4 HOURS, WHILE AVERAGE WEEKLY EARNINGS INCREASED BY LESS THAN 0.5

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 OTTAWA 10550 03 OF 04 212008Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 DODE-00 PA-02 PRS-01 DOE-12 /108 W
-----118375 212025Z /45

P 211927Z DEC 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 5754
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS CANADA POUCH

UNCLAS SECTION 03 OF 04 OTTAWA 10550

PERCENT. LATEST CONFERENCE BOARD FORECAST FORESEES UNEMPLOYMENT RATE OF 8.4 PERCENT IN 1978 COMPARED WITH SEPTEMBER PROJECTION OF 8 PERCENT OR SLIGHTLY LESS. CONFERENCE BOARD HAS NOT CHANGED ITS FORECAST OF 5 PERCENT REAL GROWTH NEXT YEAR. HOWEVER CONFERENCE BOARD ECONOMIST INDICATED TO EMBOFF THAT 5 PERCENT GROWTH (WHICH BOARD CONSIDERS GROWTH OF CAPACITY) IMPLIES NO CHANGE IN UNEMPLOYMENT RATE. THUS, CONTINUED RISE IN EMPLOYMENT RATE SINCE SEPTEMBER PRODUCES A HIGHER STARTING POINT FOR 1978 AND GENERATES UPWARD REVISION OF BOARD'S FORECAST FOR NEXT YEAR.

14. REGIONAL DEVELOPMENTS. GENERAL MOTORS OF LONDON, ONTARIO, HAS BEEN AWARDED A CDOLS 93.5 MILLION CONTRACT TO BUILD BUSES FOR QUEBEC MUNICIPALITIES. AS PART OF DEAL GM AGREED TO SHIFT PORTION OF ITS BUS MANUFACTURING ACTIVITY FROM LONDON TO MONTREAL (WHILE NOT REDUCING EMPLOYMENT IN LONDON). IN SECURING CONTRACT, GM BEAT OUT JOINT BID OF AM GENERAL AND BOMBARDIER - MLW OF MONTREAL. BOMBARDIER CRITICIZED AWARD NOTING THAT IT WAS MANNED NEARLY 100 PERCENT BY QUEBECERS. PROVINCIAL GOVERNMENT EMPHASIZED THAT DECISION WAS MADE ON ECONOMIC GROUNDS ALONE.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OTTAWA 10550 03 OF 04 212008Z

15. EXTERNAL DEVELOPMENTS. GROUP OF CANADIAN INDUSTRIES, -- PART OF TRI-NATIONAL CONSORTIUM (INCLUDING VENEZUELA AND SPAIN), HAS BEEN AWARDED A DOLS 959 MILLION (CANADIAN SHARE ESTIMATED AT DOLS 264 MILLION) CONTRACT TO CONSTRUCT FIRST PHASE OF A VENEZUELAN NATIONAL RAILWAY. CANADIAN GROUP IS TO BUILD 700KM SKETCH OF RAILWAY AND TO PROVIDE MUCH OF EQUIPMENT. CONSTRUCTION SET TO BEGIN IN MAY, 1978.

16. FISCAL POLICY. LEGISLATION CONTAINING NEW TAX MEASURES PROPOSED IN MARCH 31 BUDGET AS WELL AS IN OCTOBER 20 "MINI BUDGET" HAVE BEEN PASSED BY PARLIAMENT AND RECEIVED ROYAL ASSENT.

17. PUBLIC SECTOR GROWTH. ROYAL COMMISSION ON FINANCIAL MANAGEMENT AND ACCOUNTABILITY, ESTABLISHED AT THIS TIME LAST YEAR, TABLED PROGRESS REPORT IN PARLIAMENT ON DECEMBER 16. COMMISSION CHAIRMAN EXPRESSED VIEW THAT RAPID GROWTH OF THE PUBLIC SECTOR HAS BEEN PRIME CAUSE OF SORRY STATE OF FINANCIAL ACCOUNTABILITY AND PROPER FINANCIAL MANAGEMENT IN PUBLIC SERVICE. CHAIRMAN ADDED THAT CURRENT GOC POLICY OF REDUCTION IN GROWTH OF PUBLIC SECTOR TO RATE OF GNP GROWTH WOULD BE INADEQUATE TO REDRESS SITUATION; A DECLINE IN ABSOLUTE SIZE OF PUBLIC WORK FORCE IS CALLED FOR.

18. MONETARY POLICY. BANK OF CANADA HAS BEGUN TO PUBLISH

ADDITIONAL MONETARY SERIES INCLUDING M2, M3 AND M1B (ESSENTIALLY M1 PLUS CHECKABLE SAVINGS DEPOSITS). SEE OTTAWA 10527 FOR DETAILS.

19. CAPITAL MARKETS. SHORT TERM INTEREST RATES JUMPED UPWARD EARLY IN WEEK ENDING DECEMBER 16 AS RESULT OF CONCERN OVER POSTAL STRIKE IN TORONTO AND SHARP DROP IN CANADIAN DOLLAR EXCHANGE RATE. WITH END OF STRIKE AND RALLY IN UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 10550 03 OF 04 212008Z

EXCHANGE RATE SHORT RATES FELL QUICKLY. WEAKNESS OF U.S. DOLLAR APPARENTLY INDUCED SHIFTS OF FUNDS INTO CANADIAN SHORT TERM PAPER. INTEREST RATE ON 3 MONTH TREASURY BILLS FELL TO 7.18 PERCENT IN WEEK ENDING DECEMBER 16 FROM 7.22 PERCENT PREVIOUS WEEK. PRICES OF LONG TERM BONDS CHANGED MINIMALLY.

20. FOREIGN BORROWING. INCO APPARENTLY EXPERIENCING DIFFICULTY WITH U.S. DOLS 150 MILLION BOND ISSUE IN EURO-MARKET. INCO HAS BEEN FORCED BOTH TO RAISE COUPON RATES AND TO CUT PRICES. DIFFICULTIES ARE REPORTEDLY LINKED TO (A) UNSETTLED CONDITIONS OF EURO-MARKET (DUE TO U.S. DOLLAR INSTABILITY); (B) COMPETITION FROM DOLS 500 MILLION 12 YEAR BOND ISSUE BY SHELL INTERNATIONAL FINANCE NV BEARING COUPON OF 8.25 PERCENT; AND (C) DETERIORATION OF INCO'S BOND RATING. DOMINION BOND RATING SERVICE RECENTLY CUT INCO'S RATING FROM AA TO LOW-AA, WHILE CANADIAN BOND RATING SERVICE CUT INCO FROM A-A TO A. OTHER MINING COMPANIES (EG. NORONANDA AND HUDSON BAY) ALSO SAW THEIR BOND RATINGS CUT.

21. ONTARIO HYDRO'S U.S. DOLS 200 MILLION ISSUE IN NEW YORK HAS REPORTEDLY NOT YET BEEN FULLY SOLD. U.S. ANALYSTS ARE CITED AS INDICATING THAT ONTARIO HYDRO HAS NOT BENEFITTED SIGNIFICANTLY FROM ITS UPGRADING TO TRIPLE A BOND RATING.

22. INTEREST RATES IN 1978: ECONOMISTS AT MERRILL LYNCH ROYAL SECURITIES FORECAST INCREASE IN DISCOUNT RATE IN EARLY 1978, AND RISE OF 50-75 BASIS POINTS IN SHORT TERM INTEREST RATES NEXT YEAR, DUE LARGELY TO PRESSURE ON CAPITAL MARKET FROM FINANCING OF GOVERNMENT (AT ALL LEVELS) DEFICIT AND FROM HIGHER U.S. INTEREST RATES. ROYAL BANK OF CANADA SHARES THIS VIEW AND UNDERLINES POSSIBILITY OF SUBSTANTIAL "CROWDING OUT." MOST ANALYSTS FEEL THAT RISE IN LONG TERM RATES WILL

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 OTTAWA 10550 04 OF 04 212010Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 DODE-00 PA-02 PRS-01 DOE-12 /108 W
-----118396 212026Z /45

P 211927Z DEC 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 5755
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS CANADA POUCH

UNCLAS SECTION 04 OF 04 OTTAWA 10550

BE TEMPERED BY MODERATION OF INFLATION RATE.

23. EXCHANGE MARKETS. BOOST TO CANADIAN DOLLAR EXCHANGE
RATE PROVIDED BY ANNOUNCEMENT OF MAJOR FOREIGN BORROWINGS
WORE OFF QUICKLY AS DOLLAR DROPPED TO U.S. DOLS .9109 EARLY
IN WEEK OF DECEMBER 16 FROM U.S. DOLS .9133 REGISTERED AT
END OF PREVIOUS WEEK. DOLLAR FIRMED DURING WEEK, HOWEVER,
AS RESULT OF ATTRACTIVENESS OF CANADIAN DOLLAR RELATIVE
TO U.S. DOLLAR AND TO COVERING OF SHORT POSITIONS. SUCH
COVERING OF SHORT SALES AND EMERGENCE OF EQUALITY BETWEEN
SPOT AND FORWARD RATES INDICATES "MARKET FEELING" THAT
PRESENT U.S./CANADIAN DOLLAR EXCHANGE RATE IS "ABOUT RIGHT".
AVERAGE U.S./CANADIAN DOLLAR EXCHANGE RATE FOR WEEK ENDING
DECEMBER 16 WAS U.S. DOLS .9116 COMPARED WITH U.S. DOLS
.9109 A WEEK EARLIER. ENDERS

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, REPORTS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Sent Date: 21-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977OTTAWA10550
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770476-0465
Format: TEL
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771231/aaaabaec.tel
Line Count: 420
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3d2816ff-c188-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 8
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 159157
Secure: OPEN
Status: NATIVE
Subject: RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS
TAGS: ECON, EFIN, CA
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/3d2816ff-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009